

VZCZCXRO6735
RR RUEHLMC
DE RUEHMU #1317/01 3021437
ZNR UUUUU ZZH
R 281437Z OCT 08
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 3302
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHDC

UNCLAS SECTION 01 OF 02 MANAGUA 001317

SIPDIS
SENSITIVE

STATE PASS USTR
STATE FOR WHA/ESPC AND WHA/CEN
STATE ALSO FOR EEB/BTA
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN

E.O. 12958: N/A
TAGS: ETRD ECON PGOV NU
SUBJECT: NICARAGUA: RHETORIC ASIDE, EXPORTS ARE BOOMING

Summary

¶1. (U) President Ortega has criticized CAFTA-DR for creating jobs that are not much more than slave labor, obstructing Central American integration, and failing to address economic asymmetries. Recently, he has called for a comprehensive renegotiation of the agreement. Nonetheless, Nicaraguans are quietly benefiting from CAFTA-DR and other free trade agreements. Exports to the United States rose 36% between 2005 and 2007, while exports to Central American more than doubled between 2002 and 2007. Jobs in export industries pay twice as much as other blue collar employment. Just as President Ortega selectively ignores the benefits of CAFTA-DR, perhaps we should ignore his calls for comprehensive renegotiation, and instead work quietly with willing Nicaraguan officials and exporters to improve implementation. End summary.

Ortega Calls for CAFTA-DR Renegotiation

¶2. (U) Daniel Ortega has been a regular critic of CAFTA-DR, both as a member of the National Assembly when the agreement was approved and as President of Nicaragua as the agreement is implemented. Unwilling to acknowledge that CAFTA-DR has created higher-paying jobs, he has labeled employment in export industries as "not much more than slave labor." On several occasions, he has blamed CAFTA-DR for "obstructing Central American integration efforts," despite evidence that Nicaragua's trade with neighboring countries has increased. He has complained that "CAFTA-DR does not address economic asymmetries," ignoring preferential treatment for apparel, lengthy tariff phase-outs, and other concessions negotiated in the agreement. On October 14, he went beyond the usual criticism to call for a "comprehensive renegotiation of the agreement, taking into account asymmetries."

¶3. (U) While Ortega's rhetoric against capitalism and free trade continues unabated, Nicaraguans are quietly benefiting from free trade agreements with the United States, Central American neighbors, and others. According to Central Bank data, exports accounted for 40% of GDP in 2007, up from only 22% in 2002. In 2007, total exports were \$2.3 billion, more than double what they were in 2002 and up 14% compared to 2006. This export growth is a direct consequence of opportunities created by the U.S. - Central America - Dominican Republic Free Trade Agreement (CAFTA-DR) as well as regional integration efforts.

CAFTA-DR Exports up 36% from 2005 to 2007

¶4. (U) Nicaraguan exports to the United States totaled \$1.6 billion in 2007, up 36% from 2005. Apparel and wiring harnesses for automobiles were the leading exports, up 35% from 2005 to 2007.

Furniture exports increased from \$473,000 in 2005 to \$4.2 million in 2007. All of these goods are manufactured in free trade zones, where 121 firms directly employ 87,500 workers in assembly jobs. On occasion, Ortega has called this slave labor, but at \$150/month, the average monthly wage in export industries is nearly twice that of other blue collar workers.

15. (U) CAFTA-DR is also creating opportunities in rural areas. Agricultural exports to the United States rose 44% between 2005 and 2007. Buoyed by rising commodity prices, coffee, meat, shrimp, sugar, and tobacco showed the greatest increases. Trade data also show significant growth in exports of fresh fruits and vegetables, up 59% from 2005 to 2007. In a welcome development, value-added production related to agricultural goods is on the increase. Exports of dairy products were up 90% between 2005 and 2007, peanut oil 106%, and rum 85%.

Agriculture Dominates Trade within Central America

16. (U) Contrary to Ortega's claim that CAFTA-DR is obstructing regional integration, Nicaraguan exports within Central America more than doubled from 2002 to 2007, to \$433 million. Nicaragua can trade nearly all goods duty free within Central America, making the region Nicaragua's largest market after the United States. Agricultural products such as beef, fresh vegetables, and cheese are the leading exports.

Comment: Renegotiate CAFTA-DR?

17. (SBU) President Ortega's ideological baggage keeps him from seeing that Nicaragua is clearly benefiting from CAFTA-DR and could benefit more. Even members of the FSLN's inner circle benefit -- most famously Economic Advisor to the President Bayardo Arce, through his association with an agricultural commodities trading company, Agricorp. Ensuring that the benefits of trade extend beyond the likes of Arce remains a challenge for us. Given the government's overall policymaking neglect and lack of interest in trade capacity building, our efforts to support the private sector are more important than ever.

18. (SBU) Despite Ortega's criticism of CAFTA-DR and call for renegotiation, Trade Ministry officials continue to participate in CAFTA-DR forums. Presidential Delegate for Investment Promotion Alvaro Baltodano has expressed interest in joining the Pathways to Prosperity Initiative. He also continues to push for more flexible rules of origin for apparel to improve Nicaraguan market access. Just as Ortega selectively ignores the benefits of CAFTA-DR, perhaps we should ignore his calls for comprehensive renegotiation, and instead work quietly with willing Nicaraguan officials and exporters to improve implementation. End comment.

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